A large, leafy tree with a thick trunk and spreading branches stands on a grassy hill. The tree's leaves are a vibrant yellow-green. The hill is covered in tall, green grass with small purple and yellow wildflowers. The sky is a clear, bright blue, featuring a single white contrail from an aircraft. The text is overlaid on the right side of the image.

# Doing Better: Progressive tax reform ideas for South Carolina

Testimony by Andy Brack  
S.C. Tax Realignment Commission  
Feb. 19, 2010



# About us

**cen-ter for a bet-ter south** (*sě'n' ter  
fôr ā bět' er south*). A pragmatic,  
nonpartisan think tank dedicated to  
developing progressive ideas, policies  
and information for thinking leaders  
who want to make a difference in the  
American South.

# What we do



**Rational debate and discussion**

**VS.**

**Bumper sticker philosophy**



# Taxes – the price of freedom

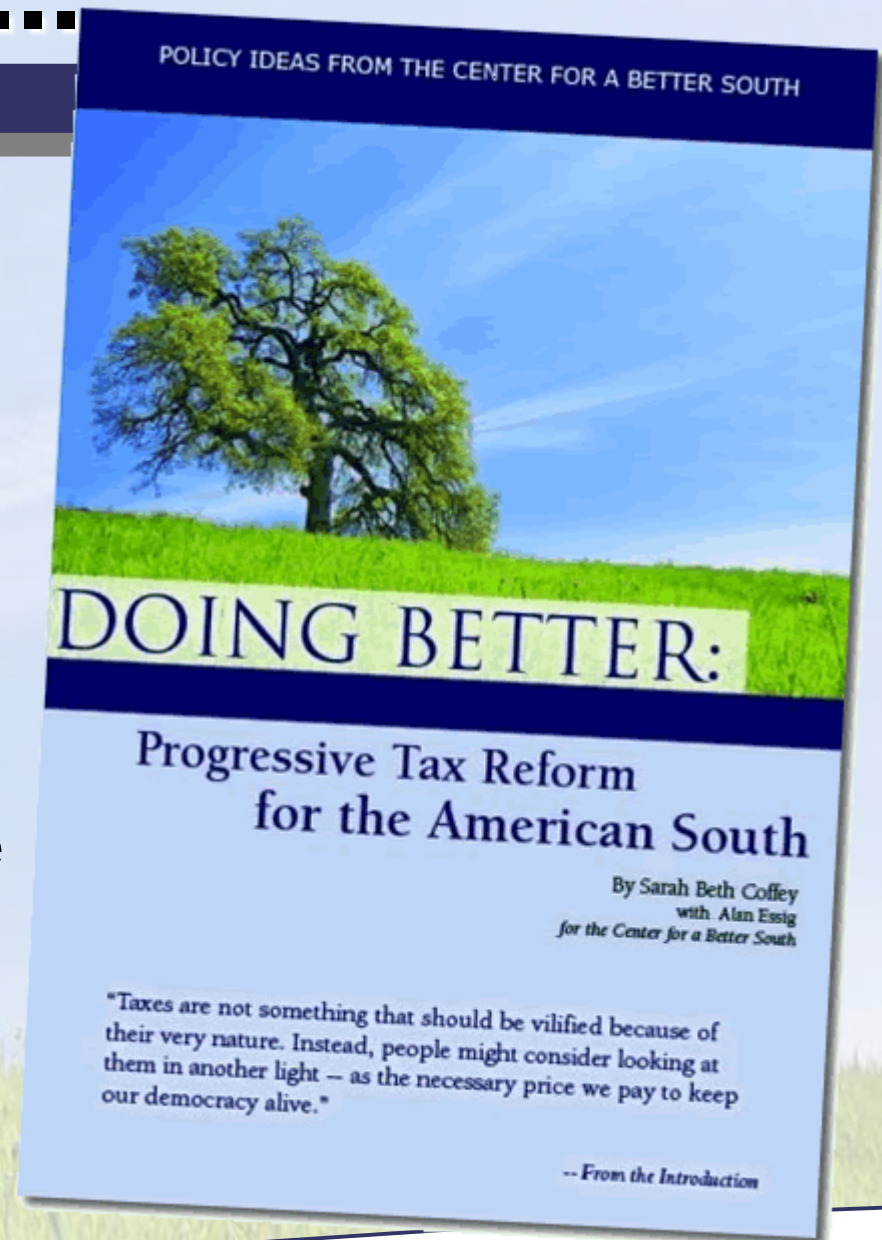
“We wouldn't have a lot of the benefits of civilized society if taxes weren't there to pay for public services and invest in the common good.

“We have taxes because generations of people have learned that shared sacrifices (taxes) are the best and fairest way for everyone to build a better country, a better quality of life.”

# On tax reform ...

*Doing Better: Progressive Tax Reform for the American South*, Better South Press, June 2006.

**Author:** Sarah Beth Coffey, with Alan Essig; Georgia Budget and Policy Institute awarded fellowship with the Center for a Better South in February 2006.





# Big picture



# Old way



- Tasty
- Nourishing

but ...

- Filled with fat
- Cooked in lard
- Unhealthy



# New way



- Still tasty
- Still nourishing

but ...

- Healthier
- Modern
- Smarter



# Time to modernize



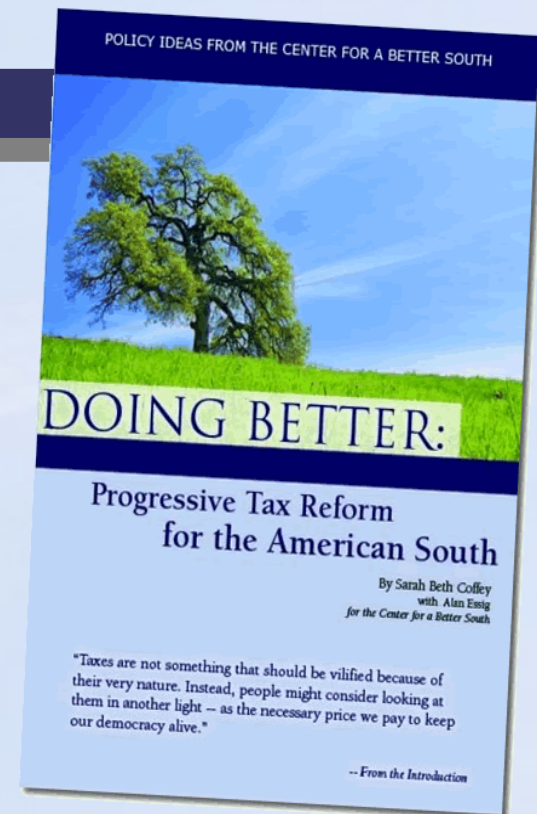
**“Southern state governments haven’t adapted to the new economy. It’s time for state lawmakers to wake up and modernize tax structures for the new economy.”**

# Holistic view

## 11 tax modernization ideas for

## 11 Southern states

(Alabama, Arkansas, Florida, Georgia,  
Kentucky, Louisiana, Mississippi, North  
Carolina, South Carolina, Tennessee,  
Virginia)





# Holistic review

“It is incumbent for lawmakers across the South to **revisit** their **state tax codes** in a holistic manner to **bring our tax systems into the 21<sup>st</sup> century....**”

# Don't cherry-pick ideas

“... **All components** – the income tax, sales tax, property tax and others – **should be thoroughly examined and modernized** to improve and ensure the fairness, adequacy and integrity of our tax system.”












# Why?



Taking a long look at how we raise revenues and trying to make those ways **fairer** will make the South stronger.

# South Carolina, at a glance

## A South Carolina scorecard

Has the state ...	Yes	No	More work needed
1: Broadened sales tax base		x	
2: Modernized sales taxes		x	
3: Raised cigarette taxes to U.S. average		x	
4: Enacted Earned Income Tax Credit		x	
5: Modernized income tax bracket		x	
6: Curbed inflationary increases	✓		
7: Rethought senior tax preferences		x	
8: Eliminated corporate loopholes		x	
9: Linked property taxes and ability to pay		x	
10: Strengthened accountability		x	
11: Conducted a performance review	✓		



# Idea 1

## Broaden the sales tax base

**Review removal of sales tax exemptions**

2.5 BILLION lost annually in SC

**Abolish sales tax holidays**

\$5.2 million cost to state in 2004

# Idea 2

## Modernize sales taxes for new economy

**Less than one-fourth of SC services taxed**

34 out of 168 taxed (2004)

**Adopt SSUTA**

SC has not adopted Streamlined Sales and Use Tax Agreement



# Idea 3

## Raise cigarette tax for public health

**SC tax is lowest in nation. Raising to national average would:**

- Likely to cause 30,600 South Carolinians to stop smoking
- Long-term SC health savings would be \$1.1 billion

# Idea 4

## Enact an Earned Income Tax Credit

**431,267 South Carolinians** claimed federal EITC in 2005 for \$856 million.

**State credit would help working families escape poverty.**



# Idea 4

## Enact an Earned Income Tax Credit

Twenty-four States Have Enacted EITCs, June 2009



Three Southern states have EITC

Up from 1 in 2006; LA, NC, VA

# Idea 5

## Modernize income brackets

### **Broaden brackets**

Top SC bracket (single filers) is 7 percent for income of \$12,560 and above.

### **Consider creation of new top bracket**



# Idea 6

## Deal with hidden income tax increases

SC is one of few Southern states that indexes several parts of its income tax system for inflation.

# Idea 7

## Rethink senior tax preferences

**Provide fair relief based on ability-to-pay, not age alone**

- SC will grow by 2030 to 22% seniors
- Provides Social Security exemption
- Provides private pension income exemption
- Provides property tax preferences, more



# Idea 8

## Eliminate corporate tax loopholes

**SC should review and update its corporate income tax structure to eliminate tax loopholes and promote fairness. SC does NOT:**

- Require combined reporting
- Have throwback rule

# Idea 9

**Link property taxes with ability to pay**

**Rethink property tax reform:**

Use a property tax circuit breaker that connects taxes with ability to pay.



# Idea 10

## Strengthen accountability

### **SC should publish a tax expenditure report**

- Improves transparency and accountability
- Allows lawmakers better info for decisions

# Idea 11

## Conduct a performance review

SC conducted a review in 2002 through a governor's commission. Needs to become institutionalized and part of routine operations.



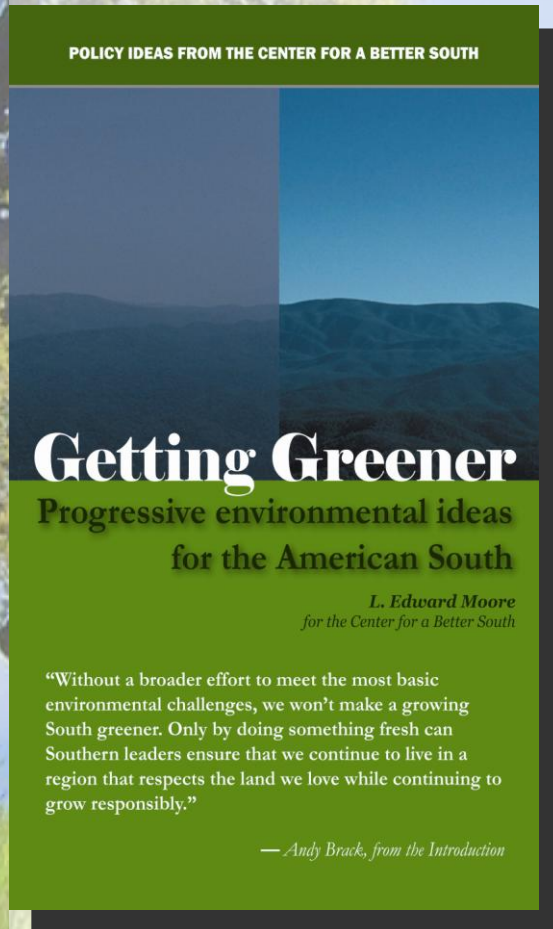
# Review

Southern states **haven't adapted** tax structures to the new economy.

Southern legislators should review tax structures to make **fairer to all**.

Doing so will make South stronger and allow residents to achieve their **Southern dreams**.

# Questions?



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